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Press Release

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State Foreclosure Prevention Working Group Issues Second Report On Subprime Mortgage Servicing Companies

The number of borrowers working with their mortgage servicers to identify alternatives to foreclosure has increased, according to state officials, but those gains have been matched by an increasing level of delinquent loans.

The State Foreclosure Prevention Working Group, a group of state attorneys general and banking regulators working to prevent home foreclosures, issued the report Tuesday concluding that efforts have increased but are falling far short of the need to address the foreclosure crisis and prevent millions of unnecessary foreclosures.

The Group issued its second "Analysis of Subprime Mortgage Servicing Performance" Tuesday, based on data collected from subprime mortgage servicers for the period October 2007 through January 2008. The Group's first report was issued February 7. [For copies of both reports, go to www.csbs.org.]

"The collective efforts of servicers and government officials to date have not translated into meaningful improvement in foreclosure prevention outcomes," the report said, despite widely-publicized campaigns to encourage homeowners in trouble to seek help, and initiatives by servicers to "fast-track" loan modifications. "In major respects, the subprime servicing data for January 2008 is nearly unchanged from October 2007," the new report said.

Major findings of the Foreclosure Working Group included:

Seven out of ten seriously delinquent borrowers are still not having alternatives to foreclosure identified by their mortgage servicers. The number of borrowers having alternatives to foreclosure identified by their servicer has increased, but it has been matched by an increasing level of delinquent loans; thus, the relative percentage has remained about the same. "Given creative servicer outreach efforts and increased public awareness of the HOPE Hotline during this time period [Oct.-Jan.], this large gap suggests a more systemic failure of servicer capacity to work out loans," the report said.

Data suggests that servicers' departments are severely strained in managing the current workload. The report noted that almost two-thirds of all efforts to identify alternatives to foreclosure are not completed in the month after they are started. "We are concerned that servicers overall are not able to manage the sheer numbers of delinquent loans," the report said. Data suggest that "the burgeoning numbers of delinquent loans that do not receive attention to identify alternatives are clogging up the system on their way to foreclosure," the report said. "We fear this will translate to increased levels of vacant foreclosed homes that will further depress property values and increase burdens on government services."

Homeowners who do receive help are most likely to receive some form of loan modification. The Group said such

modifications are a solution that seems to offer better long-term prospects for successful resolution of problem loans. Many servicers are replacing their use of repayment plans in favor of loan modifications.

"Although progress is being made, clearly, homeowners still need assistance," said West Virginia Attorney General Darrell McGraw. McGraw also noted that the number of foreclosures in West Virginia continues to rise, according to a recently published study by Mountain State Justice.

"While I commend the 13 servicers who participated, the refusal of others to participate re-emphasizes the importance of cooperation," said New York Banking Superintendent Richard Neiman. "Collaboration of state and federal agencies and institutions in addressing the mortgage crisis is vital to our success. I continue to call on nonparticipating servicers and the Comptroller of the Currency to work with us and share aggregated data so we can truly assess the breadth of the efforts being made."

The State Working Group said it believes "more robust approaches to avoid preventable foreclosures are necessary."

The Group said servicers, investors and state officials should work together on:

Developing a more systematic loan work-out system to replace the intensive, individual, "hands-on" approach. "Initial efforts to develop systemic approaches are far too limited to make a difference in preventable foreclosures," the report said. "Without a systematic approach, we see little likelihood that ongoing efforts will make a serious dent in the level of unnecessary foreclosures." The State Working Group said it "will continue to work with servicers to promote systematic solutions to modify loans in a more streamlined and efficient manner."

Slowing down the foreclosure process to allow for more work-outs. "Targeted efforts to slow down subprime foreclosures may give homeowners and servicers more time to find solutions to avoid foreclosure," the report said. Many states have enacted or are considering such measures, the report noted.

The State Working Group also encouraged the federal government to develop innovative approaches that recognize the extent and scale of the foreclosure crisis.

The State Foreclosure Prevention Working Group began as a cooperative dialogue of state officials and mortgage servicers in September 2007. Since October 2007, the Working Group has been collecting data from the largest subprime mortgage servicers, with 13 of the largest 20 servicers participating, representing approximately 60 percent of subprime mortgage loans serviced.

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